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TWENTY TWENTY-MINUTE LESSONS IN BOOKKEEPING

By

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PREFACE

This little volume is designed as a short course for the busy man or woman who wishes to get an understanding of accounts. Lengthy rules and theories have been omitted, and emphasis has been placed on the important points.

Short as the lessons are, none of the essentials of bookkeeping are omitted. When the reader has completed the twenty lessons he should be able to read intelligently a financial statement. He should also have the foundation for acquiring an understanding of any system of books.

While there will still be much to learn before he can master the details of higher accountancy, nevertheless the completing of the lessons will mark one of the most important steps in that direction.

FRANK LOOMIS BEACH

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November 1, 1921

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Twenty Twenty-Minute Lessons in Bookkeeping

INTRODUCTION

The Language of Business

The student of bookkeeping is learning to read and write the language of business. The growth or decline of a commercial enterprise is written in figures, and the man who hopes to win in the business game must learn to understand its language.

Even if you never expect to be a bookkeeper, you must still understand the records kept by bookkeepers. In some form or another everyone must keep track of money, and the more intelligently he can do so, the more money will he probably have to keep track of.

Bookkeeping

As a profession, accountancy is becoming more and more attractive. The income tax, the increase in the size of corporations, the force of competition between business concerns—all these factors have created a demand for men with an understanding of accounts.

Bookkeeping is the first step in accountancy. The principles set forth in this volume are those upon which all modern accounting systems are built.

Bookkeeping is not difficult. You merely write down what takes place in your store or factory. Modern bookkeeping is based on the fact that in business you are trading articles of value for other articles of value.

When, for instance, you buy flour, you pay out, say, $50 in gold and receive in return $50 in merchandise. When you sell the flour, you give out so many dollars of the merchandise and receive back an equal number of dollars in gold, or some other form of money.

The idea is the same when you give out money for salaries. You pay out $20 in cash and receive back $20 in services.

Every time you give out either gold or merchandise in a trade you receive back something of value. Otherwise, you would not make the trade.

So it follows that in keeping books the record of every transaction is divided into two entries, one showing the merchandise or services coming into the business and the other showing the money, or other articles of value, going out. These opposing entries must of necessity be always for equal amounts.

Mode of Procedure—Lessons

Do not try at first to connect the illustrations given in these lessons with the books of the business with which you happen to be familiar. The connection will be plain enough after you have completed the course. You will understand the company's books much better when you have learned the principles explained, which are at the foundation of all accounting systems.

In studying the twenty lessons you should work with pencil in hand. When, for instance, you come to the first illustration, showing that $10 has been borrowed with which to start business, take your pencil and copy the entry on a sheet of paper. Do the same with the other illustrations. Even if at first the reasons for putting the facts in the form shown are not entirely clear, you will find this practice of copying the illustrations a wonderful assistance. Follow this practice in all cases and you will have no difficulty in completing the lessons.

When you come to the problem at the end of each lesson, write down the facts given there in exactly the form you used when copying the example in the text. Use your pencil. By so doing you will find that you can pass from lesson to lesson with surprising ease, and in a short time you will have completed the course.

Mode of Procedure—Problems

Answers to the problems are given in the back of the book. However, do not look up an answer until you have completed the problem.

Some of the problems given may seem so simple that you may be tempted to omit them. Do not yield to the temptation. The most important thing in the course is the working of each problem as it comes up.

Lesson 1

THE JOURNAL

Making Entries

Bookkeeping, as the term is commonly used, is merely a short method of writing down the daily happenings of your business, such as the paying of rent, the selling of merchandise, etc.

Suppose you start business on January 1 by borrowing $10 from John Smith, writing down this transaction in the brief form used in bookkeeping:

Jan. 1		
Cash	$10	
John Smith		$10
Borrowed to start business.		

This entry shows that your cashier has received $10 in cash and your business has gone into debt to John Smith for $10.

(Write down the above transaction on a sheet of paper, copying it exactly as it appears. Follow this procedure with every illustration given. You will find that the mere act of copying helps to make the transaction clearer.)

As you see in the illustration, there are two

columns on the one side of the page. When $10 is put in the left-hand column, $10 is also put in the right-hand column. The number of dollars in the left-hand column always equals the number of dollars in the right-hand column.

You next buy, on January 2, 5 sacks of flour for $1 a sack in cash:

Jan. 2		
Merchandise	$5	
Cash		$5
5 sacks flour purchased.		

This entry shows that your storeman has received $5 in merchandise and your cashier has paid out $5 in cash.

(Be sure to copy this illustration.)

The $5 worth of merchandise, having been purchased, comes into the business and the $5 cash goes out.

Form of Journal

The amounts coming in are shown in the left-hand column, as the $10 cash and the $5 merchandise. The amounts going out are shown in the right-hand column, as the $10 debt and the $5 cash. This method of listing the amounts coming in and going out is used to save time.

One way of remembering that you use the left-hand column to show the amounts coming into the business, is to think of driving an automobile: the machines coming toward you are on the left-hand side.

Following this method of writing what comes into the business in the left-hand column and what goes out in the right-hand column, you record a sale as follows:

Jan. 3		
Cash	$3	
Merchandise		$3
Sale 3 sacks of flour.		

By this entry you can see at a glance that the cashier has taken in $3 in cash and that the storeman has given out $3 in merchandise.

The entries are all written in a blank book as they occur, one below another, thus:

Jan. 1		
Cash	$10	
John Smith		$10
Borrowed to start business.		
Jan. 2		
Merchandise	5	
Cash		5
5 sacks flour purchased.		

Jan. 3		
Cash	3	
Merchandise		3
Sale 3 sacks of flour.		

The blank book in which transactions are so written is called a "journal."

Problem 1

Prepare a journal page showing the transactions given below of a business just starting.

In working this problem, first try to write down the transactions in bookkeeping style without referring to the illustrations, then compare your work with the illustrations.

Remember that you write down an amount in the left-hand column for what comes in, and then an equal amount in the right-hand column on the line below for what goes out. If you keep this point in mind, you will have no difficulty.

Jan. 7. The business borrows $5 cash from Harry Smith.
It pays $3 cash for 6 boxes of soap.
It sells 2 boxes of soap for $1.
It borrows $10 more from Harry Smith.
It buys 4 brooms for $2.
It sells 1 broom for 50 cents.

Lesson 2

THE LEDGER

Classification of Items

In the first lesson you learned how to keep a journal. Transactions are written in the journal as they occur, one after another, without regard to whether they refer to merchandise, cash, or people.

It is evident that in a business of any size it would not be practical to go back through the journal and pick out the cash items whenever you wished to know how much money there was in the till.

So you use a second book in which you group, by rewriting on one page, all the items that concern cash, and on another page all the items that concern merchandise, etc.

A page on which the cash items are so rewritten appears as follows:

CASH

Jan. 1	J.....	$10	Jan. 2.	J.....	$5
Jan. 3	J.....	3			

(Copy the above illustration before going further with the lesson.)

The cash that has come in is shown on the left-hand side, and the cash that has gone out is shown on the right-hand side, the same as in the columns of the journal.

The first line on the left-hand side of the cash page, for example, shows that on January 1, $10 cash came into the business, and the letter J shows that the details of this transaction are in the journal.

The Ledger Account

It is not necessary to go into further details with regard to the transaction in this second book, as you have already written a full account of it in the journal.

The first line on the right-hand side shows that $5 cash has gone out of the business and that the details are explained in the journal under January 2.

The second line on the left-hand side shows that $3 more cash has come into the business.

It is evident that if you add the amounts on the left-hand side, $13, you will have the total cash that has come in. If from this amount you subtract the cash that has gone out, amounting to $5, as shown on the right-hand side, you will have the amount still remaining in the till, or $8.

Thus, by grouping the journal entries in this second book, it becomes possible to check up easily the amount of cash that should be on hand.

A similar grouping of the merchandise entries in Lesson 1 follows:

MERCHANDISE

Jan. 2 J.....	$5	Jan. 3 J.....	$3

The business has received $5 in merchandise and given out $3 in merchandise.

In the case of John Smith, the business has given out its promise to pay $10, and hence the entry in the second book is:

JOHN SMITH

		Jan. 1 J.....	$10

When, on January 7, you pay $5 back to John Smith on this promise, the journal entry is:

John Smith..	$5	
Cash.....		$5
Payment on $10 debt.		

The $5 shown in the left-hand column opposite "John Smith" is written on the left-hand side of the page devoted to John Smith in the second book. The $5 shown in the right-hand column opposite

"Cash" is written on the right-hand side of the cash sheet in the second book.

The account in the second book with John Smith then appears:

JOHN SMITH

Jan. 7	J.....	$5	Jan. 1	J.....	$10

Taking the difference between the right- and the left-hand sides, you find that you still owe $5.

A book in which transactions are thus grouped is called a "ledger." One of the groups, such as Cash, Merchandise, or John Smith, is known as a ledger account.

Problem 2

Prepare a ledger showing accounts with Harry Smith, Merchandise, and Cash, taking the items from the journal prepared in Problem 1.

The problem is simple if you remember that each item in the left-hand column of the journal goes on the left-hand side of the ledger page, and each item in the right-hand column goes on the right-hand side of the ledger page. Check the amounts in the journal as you write them in the ledger, to see that you do not overlook transferring any item. Every item in the journal must go into the ledger.

Lesson 3

TRIAL BALANCE

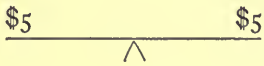
Balance of Accounts

You will remember that in Lesson 1 every time you wrote $10 in the left-hand column of the journal you also wrote $10 in the right-hand column. The journal entry was:

Cash	$10	
John Smith		$10
Borrowed to start business.		

The total of the left-hand column must, therefore, equal the total of the right-hand column.

The books of a business may be considered as a weight scale. Every time you add $5 to the left-hand side you also add $5 to the right-hand side, and thus keep the sides balanced.



The scale will continue to balance if you add $10 more to the left-hand side and $10 more to the right-hand side.

Proving the Ledger

You saw that every entry in the left-hand column of the journal is also posted to the left-hand side of some ledger account, and that every entry in the right-hand column of the journal is posted to the right-hand side of some ledger account. As the amounts in the two columns of the journal are equal, the total of all entries on the left-hand side of the ledger accounts must equal the total of all the entries on the right-hand side.

Suppose you wish to see if your ledger is correct. To do this take a sheet of paper and write down your ledger accounts thus:

	Debit	Credit
Cash	$13	$10
Merchandise	5	3
John Smith	5	10
	$23	$23

Opposite the name of each account write, first, the total of the entries on the left-hand side; and in the next column the total of the entries on the right-hand side.

In your ledger account with cash you have two entries on the left-hand side, one for $10 and one for $3, making a total of $13. This $13 is shown above. On the right-hand side of your Cash account you have two $5 entries, or a total of $10.

which is shown in the right-hand column above. In the same way the sheet shows the totals of your Merchandise and John Smith accounts.

As there has been an entry on the right-hand side for every entry on the left-hand side, both for the same amount, the totals of the two columns must be equal, as shown in the foregoing example.

Testing a ledger in this fashion is called "taking a trial balance." When the totals of both the debit and the credit sides are equal the books are said to be in balance.

Problem 3

Prepare a journal, ledger, and trial balance, covering the following:

Feb. 1. John Jones invests $10 cash in a candy business.
" 2. The business buys 50 pounds of sugar at 10 cents a pound, paying cash.
" 3. The business sells for cash 40 pounds of sugar at 10 cents a pound.

In preparing the journal, remember that we show the amount coming into the business in the left-hand column, and the amount going out in the right-hand column. The amount coming in is always written one line above the amount going out.

Finish the journal before starting the ledger.

Lesson 4

DEBIT AND CREDIT

Terms Defined

You have learned how to keep a journal and a ledger, and how to prepare a trial balance.

Consider now the Cash account as found in the ledger:

CASH

Jan. 1	J.....	$10	Jan. 2	J.....	$5

The $10 on the left-hand side shows that you have turned $10 over to the cashier, who, of course, is now responsible to the business for that amount.

Thus the entries on the left-hand side show the amount the cashier owes the business. The left-hand side is called the "debit" side, the word debit coming from the same Latin word as debt.

If the cashier pays out $5 for the good of the business, you give him credit for that amount by putting it down on the right-hand side of his account. The right-hand side is therefore called the "credit" side.

If the debit side shows $10 and the credit side $5, the cashier is responsible to the business for the difference, or $5.

Merchandise Transactions

Consider the Merchandise account from the same standpoint. You turn over $5 worth of flour to the storeman. He is now responsible to the business for this amount, and so you show $5 on the debit side of the Merchandise account.

You should remember that these entries are first made in the journal, and from there posted to the ledger. Entries are always made through the journal; never directly to the ledger. Turn back to Lesson 1 and note the journal entry.

MERCHANDISE

Jan. 2	J.....	$5			

When a $3 sale is made, the storeman delivers this amount from his stock and you relieve him of responsibility for $3 by entering the amount on the credit side of the Merchandise account.

MERCHANDISE

Jan. 2	J.....	$5	Jan. 3	J.....	$3

The storeman is now responsible to the business for the difference, or $2.

The debit side (left-hand) shows debt or responsibility *to* the business. The credit side (right-hand) shows debt or responsibility *of* the business.

Bookkeeping is merely a short method of showing these facts.

Problem 4

Prepare a journal, ledger, and trial balance.

Mar. 5. B. Jones starts business by investing $20. On the same day he buys $10 worth of flour.

" 6. He sells $5 worth of flour. The same day he buys another $12 worth of merchandise.

" 7. He sells $8 worth of merchandise and invests another $5 in the business.

What is the total of the debit side of the Cash account? Of the credit side? How much is the cashier now responsible to the business for?

Lesson 5

EXPENSE AND INCOME

Recording Expenses

You have seen that when money is spent for merchandise, you debit Merchandise and credit Cash:

Jan. 2		
Merchandise	$5	
Cash		$5
5 sacks flour purchased at $1 a sack.		

Merchandise is coming into the business and cash is going out.

But merchandise is not the only thing that is responsible for your expenditure of money. It is also necessary to meet various expenses, such as rent, salaries, etc. These expenditures are entered in the journal in exactly the same way as expenditures for merchandise:

Feb. 5		
Rent Expense	$10	
Cash		$10
Rent for February.		

Salary Expense	$20	
Cash		$20
Salaries for week ending Feb. 5.		

Ledger accounts are opened with the various items of expense, and the journal entries are posted to these accounts. All that is required to open a new ledger account is to write the name of the account at the top of a new sheet.

RENT EXPENSE

Feb. 5	J.....	$10

SALARY EXPENSE

Feb. 5	J.....	$20

When the trial balance is taken these accounts are shown the same as any other accounts.

Profits

Furthermore, there are causes other than the sale of merchandise which bring money into the business. Suppose the business has $100 loaned out which is bringing in $6 interest a year. When this $6 comes in, we must debit Cash, for the cashier is now responsible for this amount, and we must

credit Interest Income, for that is the force which has caused the money to come in:

Feb. 10		
Cash	$6	
Interest Income		$6
Interest received for 1 year on loan of $100 to Tom Bly.		

Force Accounts

Factors such as expense and interest are forces which cause money either to come in or to go out of the business, and we may refer to the accounts as force accounts.[1]

Merchandise and Cash accounts, on the other hand, represent real property actually on hand and are known as real accounts.

The distinction between force and real accounts is important.

Force accounts merely point out where money has come from or where it has gone. Force accounts deal with the past. For example, we have the account with Salary Expense, which shows that $20 of our money has gone for salaries. This $20 has been entirely used up; we cannot sell our Salary account and get back the money which we have spent.

[1] These accounts are also known as nominal accounts.

Real accounts, however, represent how much we now have on hand and how much we now actually owe. Thus, Merchandise is a real account; we can sell the merchandise and get back the money which has been put into it. John Smith, in the first lesson, is a real account, as it represents a debt which the business owes.

When the force is one which causes money to come into the business, we consider the force as creditable and we credit the account, as we did the Interest account.

When the force, like rent expense, causes us to pay out money, it is considered discreditable (beginning with the same letter as debit) and we debit the force account.

Problem 5

Prepare a journal, ledger, and trial balance.

Apr. 2. Johnson starts business by investing $30. On the same day he pays out $10 for rent expense for April and also buys $12 worth of merchandise.

" 3. He sells $5 worth of merchandise and collects $4 rent for the front of the store.

" 4. He pays out $8 in wages.

Which of your ledger accounts represent actual property or actual debts? Which represent forces?

Lesson 6

MERCHANDISE INVENTORY

Merchandise Profit

It is evident that if we sold our merchandise for the same price as we paid for it, there would be no object in staying in business.

We buy 6 sacks of flour at $1 a sack:

May 5		
Merchandise	$6	
Cash		$6
6 sacks of flour bought at $1 a sack.		

We sell 4 sacks of this flour at $1.25 a sack:

May 6		
Cash	$5	
Merchandise		$5
4 sacks of flour sold at $1.25.		

After posting these journal entries to the ledger, the Merchandise account appears as follows:

MERCHANDISE

May 5 J	$6	May 6 J	$5

(Remember to study these lessons with a pencil in hand and to copy each of the illustrations. Do not try to shorten the work by omitting the copying.)

In this case it is easy to tell how much was paid for the merchandise which has been sold (4 sacks costing $1 each, a total of $4). Knowing that the merchandise which has been sold has cost us $4 and that we have received $5, it is easy to figure the profit. The profit, of course, is $1.

Taking Inventory

But in a business of any size, handling many different articles and buying and selling every day, it is not practical to go back through the journal and figure out what articles have been sold and what their cost was.

So we count how much is left on hand (take inventory) and find the cost price of this unsold merchandise. In our example we count the sacks of flour and find two sacks still in stock. This flour cost $1 a sack. So the value of the inventory is 2 times $1, or $2.

The ledger account shows that the merchandise we started with cost $6. We have taken inventory and found that the merchandise still on hand cost $2. The merchandise which has been sold must, therefore, have cost the difference, or $\$6 - \$2 = \$4$.

If we take the cost of the merchandise we have bought and subtract the cost of that which has *not* been sold, the difference will give us the cost of the merchandise which has been sold.

We have received $5 for merchandise only costing us $4. The profit, therefore, has been $1.

Recording Inventory

The inventory is usually taken once a year.

We consider that all the merchandise found on hand at the time the inventory is taken is turned over to a new storekeeper.

The cost of the goods on hand is figured and we charge the new storekeeper with this amount. The old storekeeper is given credit.

Dec. 31		
Merchandise (new account)	$2	
Merchandise (old account)		$2
Inventory taken at end of year.		

With this entry we debit the new storekeeper and credit the old storekeeper for the goods on hand.

This entry is made when the inventory is taken at the end of the year, even though the merchandise is not physically turned over to a new storekeeper.

A new sheet is headed up in the ledger and a new account is opened with Merchandise.

The journal entry is then posted:

MERCHANDISE (new account)

Dec. 31	J.....	$2			

This new Merchandise account shows the amount for which the storeman is now actually responsible.

The other half of the journal entry is posted to the former Merchandise account, which will then appear as follows:

MERCHANDISE (old account)

May 5	J.....	$6	May 6	J.....	$5
			Dec. 31	J (inv.).....	2

Posting the cost of the goods on hand to the credit side of the account gives the same result as subtracting $2 from the $6 on the debit side in order to find the cost of the flour sold. The account shows that we have made a profit of $1.

Problem 6

Prepare a journal and a ledger with the following accounts: Merchandise (old account); Merchandise (new account); Cash; Sam Smith, Proprietor.

Apr. 5. Sam Smith starts business investing $25 cash.
He buys $20 worth of merchandise for cash.
He sells $15 worth for cash.
" 6. He takes inventory and finds that the merchandise still on hand cost him $10.

What does the old Merchandise account show that his profit has been?

Lesson 7

PROFIT AND LOSS ACCOUNT

Net Profit

Suppose you are bookkeeper for John Smith. After taking inventory on December 31, you made a trial balance which appeared as follows:

	Dr.	Cr.
Cash	$ 60	$ 55
Merchandise (new account)	20	
Merchandise (old account)	45	60
John Smith, Proprietor		20
Rent Expense	10	
	$135	$135

(You should copy this trial balance on your work paper.)

If you will look back to Lesson 6, you will see that at the time inventory was taken all the merchandise found on hand was taken out of the old Merchandise account and placed in a new Merchandise account. The journal entry we posted had the effect of subtracting all of the goods actually on hand out of the old account and adding them to the new account.

Turning to the present example, you have taken all the actual merchandise out of the old account,

what remains in the account must be profit. The old Merchandise account is now changed from an account measuring a real asset to an account measuring only profit.

After the inventory was posted, the old Merchandise account became a force account, showing the profit which was earned on the sale of merchandise.

The Rent Expense account shows the amount that the force, rent, has caused John Smith to pay out.

The difference between the creditable force, profit, and the discreditable force, rent expense, shows the net profit. Profit has brought in $15, while rent has caused John Smith to pay out $10; his net earnings have been $5.

Profit and Loss

Subtraction in bookkeeping is accomplished by adding to the opposite side of the account. Thus if we have a Cash account showing $60 on hand:

CASH

Jan. 1	J.....	$60			

and we want to subtract $10, we add the $10 to the opposite side:

CASH

Jan. 1	J.....	$60	Jan. 2	J.....	$10

The Cash account now shows that we have $60 less $10, or $50, on hand.

Remember that all these entries in the ledger have to be first made in the journal. Every entry is made first in the journal and from there posted to the ledger.

If we can bring all the force accounts together, those with a credit balance on one side and those with a debit balance on the other, their difference will show the net profit earned, or possibly the net amount lost.

We can bring these accounts together easily by opening a new ledger account called "Profit and Loss."

This is done in most businesses at the end of each year.

Closing into Profit and Loss

There are already two force accounts in John Smith's ledger:

MERCHANDISE (old account)

Apr. 6	J.....	$45	Apr. 7	J.....	$40
			Dec. 31	J (inv.).....	20

RENT EXPENSE

Apr. 7 J.....	$10	

In order to get the debit balance of $10 shown in the Rent Expense account into Profit and Loss, you make the following journal entry:

Dec. 31		
Profit and Loss.....	$10	
Rent Expense.....		$10
Closing out Rent Expense account.		

Posting this entry, the $10 debit entry will appear on the debit side of the Profit and Loss account, and the $10 credit will appear on the credit side of the Rent Expense account, making the Rent Expense account balance; that is, it will have the same amount on both debit and credit sides. When an account thus balances it is spoken of as closed and no further attention is paid to it.

In order to get the credit balance of the Merchandise account into Profit and Loss account, the journal entry is:

Dec. 31		
Merchandise (old account).....	$15	
Profit and Loss.....		$15
Closing profit into Profit and Loss.		

Posting these two entries, the ledger accounts appear as follows:

PROFIT AND LOSS

Dec. 31	Rent.....	$10	Dec. 31	Mdse.....	$15

MERCHANDISE (old account)

Apr. 6	J.....	$45	Apr. 7	J.....	$40
Dec. 31	J.....	15	Dec. 31	J.....	20

RENT EXPENSE

Apr. 7	J.....	$10	Dec. 31	J.....	$10

(Do not fail to copy every one of these illustrations.)

Observe that when an account with Rent Expense has $10 on the debit side, to close it $10 has to be added to the credit side in order to make the two sides equal. The $10 added has to go through the journal. When you make a credit entry you have to make an equal debit entry. The debit in this case is made to Profit and Loss.

It is well to show in the Profit and Loss account where the debit entries, such as expense and rent, and where the credit entries, such as merchandise, come from.

The Profit and Loss account of John Smith now shows a credit balance of $5. Thus we see that the net results of the operation of the business have been favorable, the net earnings being $5.

Problem 7

Rule a Profit and Loss account on your work paper. From the following trial balance make the necessary journal entries closing all the force accounts into Profit and Loss, post the entries to Profit and Loss account, and show the net amount earned.

Dec. 31

	Dr.	Cr.
Cash	$45	$30
Merchandise (old account)	25	35
Merchandise (new account)	20	
J. Smith, Proprietor		30
Salary Expense	5	
	$95	$95

Lesson 8

BALANCE SHEET AND PROFIT AND LOSS STATEMENT

Trial Balance After Closing

In the preceding lesson you closed out all the force accounts into Profit and Loss and found that the business had earned a net profit of $5. The net profit, of course, goes to the credit of John Smith, the owner of the business. Hence you make the following journal entry:

Dec. 31		
Profit and Loss	$5	
John Smith, Proprietor		$5
Closing net profit into proprietor's account.		

When you have posted this entry to the ledger, all profit and loss, or force, accounts are balanced out. You now take a trial balance of the remaining ledger accounts, which will appear as follows:

	Dr.	Cr.
Cash	$60	$55
Merchandise	20	
John Smith, Proprietor		25
	$80	$80

Balance Sheet

This trial balance has none but real accounts in it. That is, every account represents so much real property on hand or owed. There is $5 of cash in the till, $20 of merchandise on the shelves, and the business owes the proprietor $25. If you list the balances in these real accounts, you have a balance sheet. The balance of an account is the difference between the total of the debits and the total of the credits.

Assets		
Cash	$ 5	
Merchandise	20	$25
Liabilities		
John Smith, Proprietor	$25	$25

At the end of the year the owner of the business wants to know what his assets and liabilities are. You give him this information in the form of the above balance sheet, made up from the real accounts.

Profit and Loss Statement

The owner also wants to know what his income and expenses have been for the year. This information you get from the force accounts which have been closed into Profit and Loss. The state-

ment you make up showing these force accounts is called a "profit and loss statement."

To prepare a profit and loss statement, it is only necessary to copy the entries from the Profit and Loss account.

From the credit side of the account you get the income items, and from the debit side, the expenses.

Income		
Merchandise Profit.....	$10	
Total Income.....		$10
Expenses		
Rent Expense.....	$ 5	
Total Expenses.....		5
Net Profit.....		$ 5

The balance sheet shows what the business is worth at the present time, while the profit and loss statement shows the source of the earnings and the cause of the expenses.

These two statements are made up when the books are closed. Closing the books means taking an inventory, opening a new Merchandise account, closing all the force accounts into Profit and Loss (as was done in Lesson 7), and then closing the Profit and Loss account into the proprietor's account. The books are usually closed at the end of the year.

Problem 8

From the following trial balance prepare a Profit and Loss account, closing all of the force accounts into it, and transfer the net profit to the proprietor. Show the journal entries, a profit and loss statement, and a balance sheet.

	Dr.	Cr.
Cash	$ 90	$ 50
Merchandise	25	
Merchandise (old account)	35	55
Salary Expense	15	
Harry Hayes, Proprietor		60
	$165	$165

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Lesson 9

ACCOUNTS PAYABLE AND RECEIVABLE

Buying on Account

We have now learned how to open and close a set of books, how to prepare a trial balance, a profit and loss statement, and a balance sheet.

Suppose that instead of purchasing our merchandise for cash, we buy $50 worth from Smith & Co., on 30 days' credit. The journal entry for this transaction would be:

June 5		
Merchandise.....	$50	
Smith & Co.....		$50
Merchandise purchased on 30 days' time.		

The debit of this entry is posted on the debit side of the Merchandise account, to show that the storeman is now responsible for $50 worth of merchandise. We open a ledger account with Smith & Co., and post to it the credit of the entry:

SMITH & CO.

June 5 J.....	$50

This account with Smith & Co. is a real account, showing that the business is in debt to Smith & Co. for $50.

If we pay $30 on account, the entry will be:

June 7		
Smith & Co	$30	
Cash		$30
Payment on account.		

This entry shows that $30 cash has gone out of the business on account of debt we owe Smith & Co.

When the entry is posted, the Smith & Co. account will appear as follows:

SMITH & CO.

June 7 J.....	$30	June 5 J.....	$50

The account continues to have a credit balance showing that the business owes Smith & Co. $20.

Selling on Account

In the same manner we may sell on credit:

June 8		
R. E. Brown	$12	
Merchandise		$12
Sale on 30 days' time.		

We open a ledger account with R. E. Brown:

R. E. BROWN

June 8	J.....	$12	

The debit balance of $12 shows that Brown is responsible to the business for that amount.

Both the account with Smith & Co. and with Brown are real accounts and hence, at the time the books are closed, will be shown on the balance sheet.

Assets

R. E. Brown..... $12

Liabilities

Smith & Co..... $20

Problem 9

Close books, making the necessary journal entries and ledger accounts, and prepare a profit and loss statement and a balance sheet from the following trial balance:

Dec. 31	Dr.	Cr.
Merchandise (new account)..	$ 25	
Cash.....	20	$ 15
R. L. Jackson.....	30	
Merchandise (old account)...	35	55
Rent Expense.....	15	
Jones & Co.....		35
T. Hart, Proprietor.....		20
	$125	$125

Lesson 10

REVIEW PROBLEM

You have now learned the fundamentals of bookkeeping. In working the problem given below be careful of the following:

1. See that every time you make a journal entry the same amount that goes into the credit column goes into the debit column.

2. Be careful that all amounts in the debit column of the journal are posted to the debit side of the ledger account, and that all amounts in the credit column of the journal are posted to the credit side of the ledger.

3. As an entry is posted from the journal, make a check mark so that you will overlook no entry.

4. Before closing out the force accounts to Profit and Loss, take a trial balance.

5. In taking the trial balance do not overlook any account.

6. If the totals of the debit and the credit sides are not equal, do not proceed further until you have corrected the error.

7. Be careful to close every force account into Profit and Loss, making a journal entry.

8. The balance sheet should balance; total assets

must equal total liabilities, the proprietor's account being listed as a liability.

(Be certain to work the problem. Working it is absolutely necessary for an understanding of the lessons which follow.)

Problem 10

Prepare the journal, ledger, trial balance, balance sheet, and profit and loss statement for the example given below.

Write all the transactions in the journal before starting to post, then check back to see that you have debited Cash when it has come into the business and credited it when it has gone out; that you have debited Merchandise as it has been purchased and credited it as it has been sold.

Mar. 1. Harry Smith invests $100 cash in the grocery business.
He buys a store building for $50 cash.

" 2. He purchases for cash 20 sacks of flour at $1 a sack.
He purchases $70 assorted merchandise on 30 days' time from Ross & Co.

" 3. He sells 10 sacks of flour at $1.25 a sack for cash.
He sells $40 merchandise to R. E. Colt on 30 days' time.

" 4. He sells 5 sacks of flour at $1.25 a sack for cash.
He pays salaries of $25 in cash.

" 5. He pays an electric light bill of $2.

" 6. He collects $5 rent for the use of part of his building.

" 31. He takes inventory and finds on hand merchandise which cost $60.

Lesson 11

NOTES PAYABLE AND RECEIVABLE

Notes Payable Account

A promissory note is a written promise to pay a stated sum of money at a certain time.

April 17, 19–.

Thirty days after date I promise to pay to the order of James Brown fifteen dollars ($15.00) for value received.

(Signed) R. L. Snow

If we borrow $110 from the bank, giving our 30-day, 6% note, the journal entry will be:

Apr. 20		
Cash	$110	
Notes Payable		$110
30-day, 6% note to First National Bank.		

After posting, the ledger accounts will show:

CASH

Apr. 20	J	$110	

NOTES PAYABLE

		Apr. 20	J $110

(Do not forget to study these lessons with pencil in hand and to copy every illustration.)

Notes Payable represents a liability and is a real account, appearing on the balance sheet when the books are closed.

Payment of Note

On payment of the note the journal entry is as follows:

May 19		
Notes Payable	$110.00	
Interest Expense	.55	
Cash		$110.55
Payment of note to First National Bank.		

We obtain the amount of the interest by figuring what $110 at 6% for 30 days would cost.

After posting the journal entry of May 19, the ledger account with notes payable will be as follows:

NOTES PAYABLE

May 19	J.....	$110	Apr. 20	J.....	$110

The account is "in balance" and need not be shown in the trial balance or further considered.

Notes Receivable

Suppose that J. Tate owes us $50 on his regular account:

J. TATE

May 2	J.....	$50			

He is unable to pay the $50 at the end of the month, and so he gives us a $50, 6% note due in 60 days. When he signs a note we consider that he has paid the account and make the journal entry as follows:

June 1		
Notes Receivable.....	$50	
J. Tate.....		$50
60-day 6% note given in settlement of account.		

Posting this entry, our ledger will appear:

NOTES RECEIVABLE

June 1	J.....	$50			

J. TATE

May 2	J.....	$50	June 1	J.....	$50

J. Tate's account is now closed and we have in its place another asset account, Notes Receivable, which, of course, goes into the balance sheet as a real account.

In neither the Notes Receivable nor the Notes Payable account is any attention paid to the signer of the note or to whom it is payable. A note payable to the First National Bank will be posted to the same account as one payable to John Jones.

Problem 11

Prepare journal entries and ledger accounts with Cash, Notes Payable, Notes Receivable, Merchandise, and Interest Income for the following transactions:

Jan. 5. The business borrows $40 on a 90-day 6% note. A customer buys $30 merchandise giving his 60-day 6% note in payment.

Mar. 4. The customer pays his note. The interest for 60 days at 6% on a $30 note is 30 cents.

Lesson 12

CASH DISCOUNT

Purchase Terms

It is common practice to buy merchandise with the understanding that if the bill is paid by a certain date, a discount will be granted.

Thus, we buy $100 merchandise on 2% 30-day terms. These terms mean that if the bill is paid within 30 days, we will have to remit only $98 in cash; if more than 30 days is taken, we will have to pay the full $100. This $2 is thus a profit which may be earned by prompt payment.

When we purchased the order, the entry was:

May 1		
Merchandise	$100	
Hall & Co.		$100
Merchandise purchased 2% 30 days.		

When the bill is paid the entry is:

May 10		
Hall & Co.	$100	
Cash		$98
Discount Income		2
Payment of account less discount.		

Actually we pay out only $98 in cash, Hall & Co. having agreed to accept this amount in full payment for the order, provided we remit within 30 days.

Discount Income

Discount income is posted to an account in the ledger:

DISCOUNT INCOME

	May 10 J..... $2

At the end of the year when we close the books this account is debited for the total of the credit side and Profit and Loss account is credited for the same amount:

Dec. 31		
Discount Income.....	$2	
Profit and Loss.....		$2
Closing into Profit and Loss.		

Discount Expense

In the same manner we may offer our customers a discount of 2% if they pay by the 10th of the month. This amount is an expense which we pay

in order to get our money in promptly. The journal entry is:

June 10		
Cash	$9.80	
Discount Expense	.20	
J. E. Brown		$10.00
Payment of account less discount.		

Brown actually pays $9.80, which amount we accept in full payment of the $10 debt.

Discount expense then goes into the ledger as follows:

DISCOUNT EXPENSE

June 10	J	$.20	

Bank Discount

When we borrow money on a note, the bank commonly collects the interest in advance. We wish to borrow $100. The bank takes our note for this amount to run for 60 days without interest. But in place of giving us back $100 in cash, we are given only $98. The $2 difference goes to the bank and is known as bank discount. At the end of 60 days we have to pay the bank $100.

On borrowing, the entry is:

June 1		
Cash	$98	
Discount Expense	2	
Notes Payable		$100
60-day note discounted at bank.		

On payment the entry is:

July 30		
Notes Payable	$100	
Cash		$100

Problem 12

Prepare journal entries and ledger accounts for the following:

I buy $50 worth of merchandise on 30-day 2% terms from J. Jones. The bill is paid within the 30 days.

John Hall buys $20 worth of merchandise on terms. He pays the bill before the 10th and is given a discount of 2%.

Lesson 13

CASH BOOK

Entry of Cash Transactions

If a business has many cash transactions, it would require considerable work and much paper to post each transaction from the journal to the Cash account.

To overcome this objection, a separate book, known as the "cash book," is employed for all transactions involving cash. When a cash book is used, transactions involving cash are not entered in the journal, but are first shown in the cash book, as shown below, and posted from there directly to the ledger.

The left-hand page is used for the debit or receipt side, the right-hand page for the credit or payment side.

Debiting Cash Account

At the end of the day we debit the ledger account Cash with the total of the debit side of the cash book, in this case $260, and then credit each individual account—Merchandise account with $50, Rent Income with $10, and J. T. Jeanes with $200.

Dr. CASH

Jan. 6	Mdse.	$ 50
	Rent Income	10
	J. T. Jeanes	200

The result is the same as if we had made a debit entry in the journal each time cash was received:

Jan. 6		
Cash	$50	
Mdse. sales		$50
Sales for cash.		
Cash	10	
Rent Income		10
Rent for half of store.		
Cash	200	
J. T. Jeanes		200
Payment on account.		

If we made the entries in the journal, as shown just above, it would be necessary to post to the Cash account three times, but by the use of the cash book, it is necessary to post only once.

An additional advantage is that it is possible to tell very quickly from the cash book how much cash is on hand, even though we might be several days behind in posting to the ledger.

BOOK		Cr.
Jan. 6	Tax Expense	$12
	Piper & Co.	40
	Jones & Co.	55
	Ins. Expense	30
	Brown & Co.	35

Crediting Cash Account

After posting the debit side of the cash book to the ledger, the credit side is added and the total, which is $172, is posted to the credit side of the ledger account with Cash. Each of the items, tax expense $12, Piper & Co. $40, Jones & Co. $55, insurance expense $30, and Brown & Co. $35, is posted to the debit side of its respective ledger account.

When an item goes into the credit side of the cash book, as:

	CASH BOOK	Cr.
Jan. 6	Tax Expense	$12

the result is the same as if we made a journal entry:

Jan. 6		
Tax Expense	$12	
Cash		$12
Payment of year's taxes.		

We post the total of the credit side of the cash book to the credit of the ledger account with Cash, but the individual items, such as tax expense, are posted to the *debit* side of their ledger accounts.

Problem 13

Prepare a cash book from the following data and post the various entries to the ledger:

On Jan. 8 the business receives $100 cash from the sale of merchandise and $30 from rent income. On the same day it pays out $25 for insurance expense, buys $30 merchandise for cash, and receives a $15 payment on account from Mrs. Jackson.

Lesson 14

INDIVIDUAL EXPENSE AND PROFIT ACCOUNTS

Classifying Expenses

Suppose that instead of charging interest, rent, insurance, and other expenditures against one expense account, we wish to keep these several items of expense separate so that we may know at the end of the year, or of the month, how much we have paid out for rent, how much for interest, etc.

To keep track of these several items it is only necessary to open separate ledger accounts.

Thus, when we pay $10 rent the old-fashioned journal entry will be:

	Apr. 2		
Rent Expense		$10	
Cash			$10

After posting, the ledger account shows:

RENT EXPENSE

Apr. 2	J	$10	

In the same manner we may have ledger accounts, Insurance Expense and Interest Expense.

INSURANCE EXPENSE

Apr. 3	J.....	$5	

INTEREST EXPENSE

Apr. 4	J.....	$8	

In addition to the several expense accounts covering the more common expenditures, there should also be a Miscellaneous Expense account to save opening accounts in the ledger to which there might be only one entry a year.

Closing of the Accounts

The Rent, Insurance, and Interest Expense accounts are closed out to Profit and Loss at the end of the year, just as we previously closed the one Expense account.

Dec. 31		
Profit and Loss.....	$10	
Rent Expense.....		$10
Closing into Profit and Loss account.		
Profit and Loss.....	5	
Insurance Expense.....		5
Closing into Profit and Loss account.		

It is better practice to have a number of individual expense accounts, rather than one general account. With an account for every important expense we can tell where the money has gone and where it may be possible to save money during the coming year.

In the same way we may have a number of accounts with different sources of income, Rent Income, Interest Income, etc.

All income and expense accounts are force accounts and are closed out to Profit and Loss at the end of the year, before the balance sheet is made up.

Problem 14

Prepare cash book entries, journal entries, ledger accounts, and a profit and loss statement covering the following transactions:

July 1. We pay out $20 for July's rent.
" 3. We pay out $12 in salaries.
We receive $6 in interest.
" 5. We pay out $7 for truck hire.

Lesson 15

PARTNERSHIP ACCOUNTS

Division of Profits

When two partners own the business, the net profits may be divided between them in accordance with any arrangement they may make.

As an example, suppose at the end of the year we figure up the Profit and Loss account and discover that the business has earned $200. If the agreement is that the profits be divided equally between the two partners, A and B, the journal entry is:

Dec. 31		
Profit and Loss	$200	
A's Account		$100
B's Account		100
Distribution of profits.		

This distribution of profits is made when the books are closed at the end of the year.

The partnership agreement may provide that profits are to be divided according to the amount of capital each partner has in the business at the time of closing the books. A has $750 invested as shown

by his account, and B $250. The profits are, then, to be divided so that A will get three times as much as B, and the entry is:

Dec. 31		
Profit and Loss	$200	
A's Account		$150
B's Account		50
Distribution of profits.		

Accounts After Posting

After the posting of this entry A's account will appear as follows:

A'S ACCOUNT

Apr. 5	J	$750
Dec. 31	J	150

Now, A may want to draw $100 of these profits for his personal use. The entry is then:

Dec. 31		
A's Account	$100	
Cash		$100
Money drawn for personal use.		

(Keep up the habit of copying each illustration

on your scratch paper. It is a habit that makes learning easier.)

After posting of this withdrawal, A's account appears as follows, showing that his interest in the business is now the difference between the debit and credit sides of the account, or $800:

A'S ACCOUNT

Dec. 31	J.....	$100	Apr. 5	J.....	$750
			Dec. 31	J.....	150

Distribution of Losses

Losses are usually distributed on the same basis as gains.

Suppose that in place of a profit the Profit and Loss account shows a loss, appearing as follows:

PROFIT AND LOSS

Apr. 30	Rent.....	$125	Apr. 30	Mdse.....	$300
	Supplies....	75			
	Delivery Expenses.	100			
	Salary Exp..	200			

The Profit and Loss account now shows that the business has lost $200. We distribute this loss to A and B:

Dec. 31		
A's Account	$150	
B's Account	50	
Profit and Loss		$200
Distribution of losses.		

When this entry is posted A's account will have a net credit balance of only $600. This will be what his interest in the business is worth.

Problem 15

Close the following force accounts into Profit and Loss, and distribute the net profit or the net loss to A and B, 2/3 to A and 1/3 to B.

	Dr.	Cr.
Rent Income		$100
Merchandise Profit (old account)		300
Insurance Expense	$ 50	
Salaries	200	

Lesson 16

CORPORATION ACCOUNTS

Capital Stock

In case the business is owned by a corporation in place of one man or several partners, we merely substitute the account Capital Stock for the proprietors' accounts.

Thus, if A, B, and C are in partnership, the balance sheet is as follows:

Assets		
Merchandise	$500	
Accounts Receivable	100	$600
Liabilities		
Proprietors' Accounts:		
A's Account	$200	
B's Account	200	
C's Account	200	$600

If in place of a partnership a corporation is formed, the balance sheet is:

Assets		
Merchandise	$500	
Accounts Receivable	100	$600
Liabilities		
Capital Stock	$600	$600

A corporation goes on no matter who holds the shares of stock. So the names of the individual stockholders do not appear on the balance sheet. There may be thousands of them.

With a partnership, however, should one member die or drop out, the partnership goes out of existence. If the business is to be continued, a new partnership or some other arrangement must be made.

Surplus Account

Now, if the business were to earn $300 profit, with the partnership form we would merely add one-third of this amount to the credit of each proprietor, making their individual interests worth $300, or a total of $900.

With a corporation the amount of stock is fixed by law; in the present case it would be $600. To indicate the increase of the stockholders' interest due to the earnings, another account known as Surplus is opened to which the profit is credited:

Assets		
Cash	$450	
Merchandise	350	
Accounts Receivable	100	$900
Liabilities		
Capital stock	$600	
Surplus	300	$900

The journal entry is:

Dec. 31		
Profit and Loss	$300	
Surplus		$300
Closing Profit and Loss into surplus.		

Should we want to pay out $100 to the stockholders in dividends, the entry is:

Dec. 31		
Surplus	$100	
Cash		$100
Payment of dividends.		

The total of the Capital Stock and of the Surplus accounts shows the value of the business. The two together really make one Proprietorship account.

Deficit Account

Should there be a loss in place of a profit, it is necessary to open a Deficit account:

Dec. 31		
Deficit	$100	
Profit and Loss		$100
Closing out Profit and Loss.		

The Deficit account would then go on the balance sheet on the asset side:

Assets		
Merchandise	$400	
Accounts Receivable	100	
Deficit	100	$600
Liabilities		
Capital Stock	$600	$600

The deficit is, of course, not an asset, but must be put on the asset side in order to make the books balance. To find the real worth of the business we must subtract the deficit from the capital stock.

Problem 16

From the following trial balance, close out the force accounts to Profit and Loss and then prepare a balance sheet. Remember that only real accounts go into the balance sheet.

	Dr.	Cr.
Merchandise (old account)		$100
Merchandise (new account)	$300	
Accounts Receivable	200	
Accounts Payable		60
Rent Income		40
Insurance Expense	50	
Salary Expense	80	
Capital Stock		400
Surplus		30
	$630	$630

Lesson 17

DEPRECIATION EXPENSE

Charging Off for Depreciation

If we pay out $500 cash for an automobile the ledger shows it to be worth $500:

AUTO

Jan. 5	J.....	$500	

Suppose we figure that the automobile will be worthless at the end of five years. At the end of the first year one-fifth of its value has been used, and the automobile is now worth to us only $400. It has depreciated $100. We make a journal entry:

	Dec. 31		
Depreciation Expense.....		$100	
Auto.....			$100
Annual depreciation on auto.			

Posting the entry, we have the following:

DEPRECIATION EXPENSE

Dec. 31	J.....	$100	

AUTO

Jan.	5	J.....	$500	Dec. 31	J.....	$100

Depreciation is an expense account just as much as rent or insurance. The wearing out of a machine causes us loss of money just as surely as paying rent for a place for storing it does.

We close the Depreciation account on closing the books into Profit and Loss.

Dec. 31		
Profit and Loss.....	$100	
Depreciation.....		$100
Closing into Profit and Loss.		

The automobile, which is a year old now, appears in our balance sheet as worth $400.

Rates of Depreciation

Depreciation is figured at different rates for different objects according to the length of time they are likely to be useful to the business. Thus, it might be figured that a brick building will last for 50 years, in which case we figure the depreciation at 2%. Store fixtures might be worthless to the business after 10 years. We therefore figure the depreciation at 10%. After the first year the fix-

tures which originally cost $100 show on the balance sheet as worth $90, the second year as worth $80, and so on until they are ready to be scrapped at the close of 10 years, when they no longer appear on the balance sheet as an asset.

Problem 17

We have a building costing $1,000, which we believe will be worthless in 25 years; store fixtures costing $500, on which the depreciation is 10% a year; and an automobile costing $800, on which the depreciation is 20%. Open a Depreciation account and charge the depreciation for the first year; then close the Depreciation account into Profit and Loss. Show journal entries and all ledger accounts.

Lesson 18

ACCRUALS AND PREPAYMENTS

Accrued Interest Payable

Suppose we borrow, on January 10, 1921, $10,000 at 8% interest for one year. We close the books on December 31, 1921, but as the debt is not due for 10 days we have made no expenditure for interest. Suppose we make no entry on our books to show that the use of $10,000 for over 11 months has cost us something.

On January 10, 1922, we pay the bank $800 in interest, and if the entry is made thus:

Jan. 10 (1922)		
Interest Expense	$800	
Cash		$800
Payment of 8% interest on $10,000.		

at the close of business in 1922 our books will show an expense for interest of $800, though we have only had the use of the money for 10 days in that year.

Thus, in 1921 our books show us an apparent profit of $700, when, if we were to figure in our

interest, it would be found that we had lost money. Our books, therefore, do not show the actual earnings of the business during that year.

Entry at Closing of Books

On December 31, 1921, we owe $777.78 interest at 8% on $10,000 for 11 months and 20 days. We owe this amount just as much as we owe a bill for merchandise, and to show it we set up an account, Accrued Interest Payable.

Dec. 31 (1921)		
Interest Expense.....	$777.78	
Accrued Interest Payable.....		$777.78
Accrued interest $10,000 11 months, 20 days, 8%.		

This entry is made at the end of the year, just before closing the books.

Posting the entry we have the following:

INTEREST EXPENSE

Dec. 31	J.....	$777.78	

ACCRUED INTEREST PAYABLE

		Dec. 31	J..... $777.78

Interest expense is closed out to Profit and Loss:

Dec. 31 (1921)		
Profit and Loss	$777.78	
Interest Expense		$777.78
Closing into Profit and Loss.		

Accrued Interest Payable goes into the balance sheet the same as would an account with our wholesalers, James & Co., whom we owed $700 for merchandise.

When we pay the $800 interest on January 10, 1922, $777.78 of the amount goes to pay off this last year's debt for interest accrued and the remaining $22.22 is a charge against interest expense for the current year, being interest at 8% on $10,000 from January 1 to January 10.

The journal entry is:

Jan. 10 (1922)		
Interest Expense	$ 22.22	
Accrued Interest Payable	777.78	
Cash		$800.00
Interest $10,000 1 year, 8% paid.		

Posting this entry, we have interest expense for 1922 of $22.22, while our debt for $777.78 has been balanced off.

By this method of accruals the books show the actual profit or the actual loss for the year.

In the same way that we may have an accruing expense or charge we may also have an accruing asset. Thus, if we were the bank the accrued interest of $777.78 would be an asset, and the entry would be reversed:

Dec. 31 (1921)		
Accrued Interest Receivable.....	$777.78	
Interest Income.....		$777.78

Prepaid Insurance

Suppose that on December 1, 1921, we paid a fire insurance premium of $120 to protect the store until November 30, 1922.

The entire $120 should not be charged against the profits for 1921, because during 1921 we have received protection for only one month, or 1/12 of the full amount.

Instead of charging the $120 to Insurance Expense, we therefore charge it to Prepaid Insurance.

Dec. 1 (1921)		
Prepaid Insurance.....	$120	
Cash.....		$120
Insurance paid 1 year in advance.		

This $120 worth of insurance is an asset just the same as $120 worth of flour. If we were to sell the business the day we paid for the insurance, the purchaser would be willing to pay us $120 more for the business. If we did not have this insurance paid for, the new owner would have to pay the $120 at once. Prepaid Insurance is a real account and goes into the balance sheet at the end of the year as an asset.

Adjustment at End of Year

At the end of December we have used up 1/12, or $10 worth, of this insurance. It is evident that the insurance prepaid is now worth only $110. So we make the entry:

Dec. 31 (1921)		
Insurance Expense.....	$10	
Prepaid Insurance.....		$10
Cost of insurance December 1 to December 31.		

Posting this entry we have the following:

INSURANCE EXPENSE

Dec. 31	J.....	$10

PREPAID INSURANCE

Dec. 1	J.....	$120	Dec. 31	J.....	$10

Our prepaid insurance will now show on the balance sheet as an asset worth $110.

Assets		
Cash.....	$ 500	
Merchandise.....	1,000	
Prepaid Insurance.....	110	$1,610
Liabilities		
Accounts Payable.....	$ 300	
Accrued Interest Payable....	60	
Capital Stock.....	1,100	
Surplus.....	150	$1,610

Problem 18

On July 1 we borrow $1,000 at 6% for one year.

On November 1 we pay $60 insurance premium for the ensuing year.

Set up Prepaid Insurance, Accrued Interest Payable, Insurance Expense, and Interest Expense accounts. Make entries required December 31 before closing books, and post to ledger.

Lesson 19

GENERAL REVIEW PROBLEM

Using the following transactions prepare a cash book, journal, ledger, and trial balance before closing:

Dec. 1. Harry White invests $1,500 cash in a grocery business.
He pays out in advance $120 for one year's premium on a fire insurance policy.
" 2. He buys $300 merchandise for cash.
He buys $900 merchandise from Smith & Co. on 2%, 10-day terms.
" 3. He sells $50 merchandise to Mrs. Brown on 30 days' time.
" 11. He pays Smith & Co., less 2% discount.
" 31. He pays $200 in wages.
He sells $800 merchandise for cash.
He pays $55 rent for December.
He takes inventory and finds that he has merchandise on hand which cost $700.

In the transaction of December 11, Smith & Co. are not paid $900 in cash, but that amount less 2% discount. The discount is entered in the journal, debiting Smith & Co. for $18 and crediting Purchase Discount. The actual cash paid out is entered on the credit side of the cash book.

On completion of the cash book, the total debit side is posted as a single item to the debit side of the ledger account with Cash. The total of the credit side of the cash

book is posted to the credit side of the ledger account with Cash.

All transactions in which cash either comes in or goes out of the business are entered in the cash book and not in the journal. Only those transactions go in the journal which do not affect the amount of cash on hand.

Lesson 20

GENERAL REVIEW PROBLEM (Continued)

Make the closing entries in the accounts of the preceding lesson, and prepare trial balance after closing, balance sheet, and profit and loss statement.

Appendix A

TWENTY "POINTERS" ON BOOKKEEPING

1. Every entry is first made in a cash book, journal, or similar book, and from there it is posted to the ledger. No entries are made directly in the ledger.

2. Every time you make a debit entry you should also make an equal credit entry.

3. The total of the debit column in the journal should always equal the total of the credit column.

4. Every item in the debit column of the journal is posted to the debit side of a ledger account; every item in the credit column of the journal is posted to the credit side of a ledger account.

5. As every item in the journal is posted to the ledger, the total of the debits in the latter book should always equal the total of the credits. This is proved by taking a trial balance.

6. All transactions in which cash comes in or goes out of the business are entered directly in the cash book and not in the journal.

7. The total of the debit page of the cash book is posted to the debit side of the Cash account in the ledger. The individual entries on the debit page are posted directly to the *credit* side of their respective ledger accounts. The credit side of the cash book is posted as a single item to the credit side of the ledger account with Cash, while the individual entries on the credit page are posted to the *debit* side of their respective ledger accounts.

8. We debit an account when an asset comes into the

business, and credit the account when an asset goes out of the business.

9. We give credit to a "force," such as interest income, which brings an asset into the business; we debit the force account (hold it responsible) which takes an asset out of the business.

10. The books are closed at regular intervals, at least once a year.

11. Real accounts are not closed out at the end of the year, but all force accounts must be closed out.

12. To close a force account at the end of the year, add enough to either the debit or credit side, whichever is the smaller, to make the two sides equal. If it is necessary to add to the debit side, make a journal entry debiting the force account and crediting Profit and Loss. When the credit side of the force account is the smaller, debit Profit and Loss and credit the force account.

13. Before closing the books of a mercantile business it is necessary, first, to take an inventory, and then, through the journal, to debit a new Merchandise account with the amount of the inventory and credit the old Merchandise account.

14. Just prior to the closing of the books, depreciation is charged off on furniture and fixtures, buildings, and similar assets subject to wear. This entry is made through the journal.

15. Any accrued interest or expired insurance is entered on the books through the journal, prior to closing.

16. At the end of the year all force accounts are closed out to a Profit and Loss account, and the Profit and Loss account itself is then closed out to either the Surplus or the Proprietorship accounts.

17. The profit and loss statement is made from the

Profit and Loss account after the books have been closed. The entries on the debit side show expense, while the entries on the credit side show income.

18. The balance sheet is made up from the trial balance taken after the books are closed. This trial balance shows no accounts except real accounts. Real accounts which show a debit balance go on the asset side of the balance sheet, and real accounts which show a credit balance go on the liability side of the balance sheet.

19. A trial balance can be taken at any time. If your work is correct, the total of the debits will equal the total of the credits.

20. When the debits and credits in a ledger account are equal, you need pay no more attention to that account. It is said to be closed.

Appendix B

DEFINITIONS OF BOOKKEEPING TERMS

ACCEPTANCE. So far as bookkeeping is concerned, an acceptance is a promissory note.

ACCOUNT. A heading in the ledger under which similar debits and credits are grouped, as an expense account, Cash account, Real Estate account, etc.

ASSET. An asset is something of value which belongs to the business; something which would ordinarily induce a purchaser of the business to pay more than if the item did not exist.

BALANCE OF AN ACCOUNT. The balance of an account is the difference between the debits and credits. If the debits are the larger, the account is said to have a debit balance; if the credits are the larger, the account is said to have a credit balance.

BALANCE SHEET. As commonly used, the term "balance sheet" means a statement of assets and of liabilities as given by the books. A balance sheet is presumed to show the actual worth of a business at a definite time.

BILLS PAYABLE. This account represents the amount owed by the business on outstanding promissory notes. The terms "bills payable" and "notes payable" are usually used interchangeably.

CASH BOOK. The cash book is a book of original entry in which all transactions where cash either comes in or goes out of the business are entered. Two pages are used: the left-hand, or debit page, is for the cash coming in; while the right-hand, or credit page, is for cash going out.

CHARGING AN ACCOUNT. Charging an account means making a debit entry to that account.

CHARGING OFF. Charging off an account means crediting an asset account with sufficient to close the account, debiting Profit and Loss. All such entries are first made in the journal. An asset is charged off when it is no longer considered valuable. This happens in the case of an account which cannot be collected.

CLOSING THE BOOKS. Closing the books refers to the closing out of all force accounts to the Profit and Loss account, and of that account to the proprietor or to a surplus account. The books are closed at regular intervals, usually once a year.

CREDIT. In bookkeeping credit is a term used to represent the right-hand side of an account. Real accounts showing a credit balance represent a liability, while in the case of force accounts a credit balance measures income.

DEBIT. Debit is a term used to represent the left-hand side of a ledger account. Real accounts with a debit balance stand for assets, while force accounts with a debit balance represent expenses.

DRAFT. A draft is an order on someone to pay a definite sum of money. After being accepted it is treated in bookkeeping the same as a promissory note.

FINANCIAL STATEMENT. The balance sheet and the profit and loss statement are both financial statements. The term is often used to mean the balance sheet only.

FORCE ACCOUNTS. A force account is an account which measures either income or expense during a definite period. It represents neither an asset nor a liability.

JOURNAL. The journal is a book with two parallel columns down the right-hand side of the page, the first known as the debit column and the second as the credit

column. Transactions are written in the journal as they occur, one after another, the debit entries being written first and the credit entries on the line below. There is always an equal credit written for every debit.

LEDGER. The ledger is a book with a page or part of a page for each account, on which all entries concerning that account are transferred from the journal or from the other books of original entry.

LIABILITY. A liability is a debt owed by the business.

LOSS AND GAIN ACCOUNT. This is another name for the Profit and Loss account.

NOMINAL ACCOUNTS. This is another name for force accounts.

NOTES. This is a shortened expression for promissory notes.

OPEN ACCOUNT. An open account is a ledger account in which the debits do not equal the credits. The account is closed by making the two equal.

POSTING. Posting is the act of transferring entries from the journal, or other books of original entry, to the ledger.

PROFIT AND LOSS ACCOUNT. The Profit and Loss account is a ledger account into which all force accounts are closed at regular periods, and with this done the Profit and Loss account is itself closed out. There are usually few, if any, entries to the Profit and Loss account except at the time the books are being closed.

PROMISSORY NOTE. A promissory note is a written, unqualified promise to pay a definite sum of money at a definite time.

PURCHASE BOOK. The purchase book is a form of the journal used to record purchases. It is not used in this set.

REAL ACCOUNTS. A real account represents an actual asset or an actual liability; something that is definite

and makes the business either more valuable or less valuable.

SALES BOOK. The sales book is a form of the journal used for recording sales. It is not used in this set.

TRIAL BALANCE. A trial balance is a list of all the open ledger accounts, showing either the total of the debits and the total of the credits, or the debit or credit balances, the debits and credits being arranged in parallel columns and the two columns totaled to see that they agree.

Appendix C

ANSWERS TO PROBLEMS

Answer—Problem 1

JOURNAL

Jan. 7		
Cash	$ 5.00	
Harry Smith		$ 5.00
Borrowed to start business.		
Merchandise	3.00	
Cash		3.00
Purchased 6 boxes soap.		
Cash	1.00	
Merchandise		1.00
2 boxes soap sold.		
Cash	10.00	
Harry Smith		10.00
Additional money borrowed.		
Merchandise	2.00	
Cash		2.00
Purchased 4 brooms.		
Cash	.50	
Merchandise		.50
Sold 1 broom.		

Answer—Problem 2

LEDGER

HARRY SMITH

			Jan. 7	J.....	$ 5
				J.....	10

MERCHANDISE

Jan. 7	J.....	$3.00	Jan. 7	J.....	$1.00
	J.....	2.00		J.....	.50

CASH

Jan. 7	J.....	$ 5.00	Jan. 7	J.....	$3.00
	J.....	1.00		J.....	2.00
	J.....	10.00			
	J.....	.50			

Answer—Problem 3

JOURNAL

	Feb. 1		
Cash.....		$10	
John Jones.....			$10
Cash invested in candy business.			

Feb. 2		
Merchandise	$5	
Cash		$5
Purchased 50 lbs. sugar at 10 cents per lb.		
Feb. 3		
Cash	4	
Merchandise		4
Sold 40 lbs. sugar.		

LEDGER

CASH

Feb. 1 J	$10	Feb. 2 J	$5
Feb. 3 J	4		

JOHN JONES

		Feb. 1 J	$10

MERCHANDISE

Feb. 2 J	$5	Feb. 3 J	$4

TRIAL BALANCE

	Dr.	Cr.
Cash	$14	$ 5
John Jones		10
Merchandise	5	4
	$19	$19

Answer—Problem 4

JOURNAL

Mar. 5		
Cash	$20	
B. Jones		$20
Invested to start business.		
Merchandise	10	
Cash		10
Purchased flour.		
Mar. 6		
Cash	5	
Merchandise		5
Sale flour.		
Merchandise	12	
Cash		12
Purchased merchandise.		
Mar. 7		
Cash	8	
Merchandise		8
Sale merchandise.		
Cash	5	
B. Jones		5
Additional investment.		

LEDGER

CASH

Mar.	5	J.	$20	Mar.	5	J.	$10
	6	J.	5		6	J.	12
	7	J.	8				
		J.	5				

B. JONES

			Mar.	5	J..... $20
				7	J..... 5

MERCHANDISE

Mar.	5	J.....	$10	Mar.	6	J.....	$5
	6	J.....	12		7	J.....	8

TRIAL BALANCE

	Dr.	Cr.
Cash.....	$38	$22
B. Jones.....		25
Merchandise.....	22	13
	$60	$60

The total of the debit side of the Cash account is $38. The total of the credit side is $22. The cashier is now responsible for the total of the debits, less the credits, or $16.

Answer—Problem 5

JOURNAL

Apr. 2		
Cash.....	$30	
Johnson, Proprietor.....		$30
Invests $30 to start business.		

Rent Expense	$10	
Cash		$10
Pay April rent.		
Merchandise	12	
Cash		12
Purchase of merchandise.		
Apr. 3		
Cash	5	
Merchandise		5
Sale of merchandise.		
Cash	4	
Rent Income		4
Rent received for front store.		
Apr. 4		
Wage Expense	8	
Cash		8
Paid wages.		

LEDGER

CASH

Apr. 2	J	$30	Apr. 2	J	$10
3	J	5		J	12
	J	4	4	J	8

JOHNSON, PROPRIETOR

Apr. 2	J	$30

RENT EXPENSE

Apr. 2	J.....	$10	

MERCHANDISE

Apr. 2	J.....	$12	Apr. 3	J.....	$5

RENT INCOME

			Apr. 3	J.....	$4

WAGES EXPENSE

Apr. 4	J.....	$8	

TRIAL BALANCE

	Dr.	Cr.
Cash.....	$39	$30
Johnson, Proprietor.....		30
Rent Expense.....	10	
Merchandise.....	12	5
Rent Income.....		4
Wages Expense.....	8	
	$69	$69

The following accounts represent actual property or actual debts: Cash; Johnson, Proprietor; Merchandise.

The following accounts represent forces: Rent Expense; Rent Income; Wages Expense.

Answer—Problem 6

JOURNAL

Apr. 5		
Cash	$25	
Sam Smith		$25
Investment to start business.		
Merchandise	20	
Cash		20
Merchandise purchased.		
Cash	15	
Merchandise		15
Sale of merchandise.		
Apr. 6		
Merchandise (new account)	10	
Merchandise (old account)		10

LEDGER

CASH

Apr. 5 J	$25	Apr. 5 J	$29
J	15		

SAM SMITH, PROPRIETOR

	Apr. 5 J $25

MERCHANDISE (old account)

Apr. 5	J.....	$20	Apr. 5	J.....	$15
			6	J.....	10

MERCHANDISE (new account)

Apr. 6	J.....	$10			

The Merchandise (old) account shows that we have made a profit on sales of $5, which is the amount the $25 on the credit side exceeds the $20 on the debit side.

Answer—Problem 7

JOURNAL

Dec. 31		
Merchandise (old account).....	$10	
Profit and Loss.....		$10
Closing into P. & L.		
Profit and Loss.....	5	
Salary Expense.....		5
Closing into P. & L.		

PROFIT AND LOSS

Dec. 31	J Sal. Exp....	$5	Dec. 31	J Mdse.....	$10

The net amount earned is the difference between the $10 on the credit side of the Profit and Loss account and the $5 on the debit side. It amounts to $5.

Answer—Problem 8

JOURNAL

Dec. 31		
Merchandise (old account)	$20	
Profit and Loss		$20
Closing into P. & L.		
Profit and Loss	15	
Salary Expense		15
Closing into P. & L.		
Profit and Loss	5	
Harry Hayes, Proprietor		5
Closing into Proprietor's account.		

PROFIT AND LOSS STATEMENT

Income

Merchandise Profit	$20	
Total Income		$20

Expenses

Salary Expense	$15	
Total Expenses		15
Net Profit		$ 5

LEDGER

PROFIT AND LOSS

Dec. 31	J Sal.....	$15	Dec. 31	J Mdse.....	$20
	J Prop. Acct.	5			
		$20			$20

PROPRIETOR'S ACCOUNT

		Jan. 1	J..... $60
		Dec. 31	J..... 5

BALANCE SHEET

Assets

Cash.....	$40	
Merchandise.....	25	$65

Liabilities

Harry Hayes, Proprietor.....	$65

Answer—Problem 9

JOURNAL

Merchandise (old account).....	$20	
Profit and Loss.....		$20
Closing into P. & L.		
Profit and Loss.....	15	
Rent Expense.....		15
Closing into P. & L.		

Profit and Loss	$5	
T. Hart, Proprietor		$5
Closing net profits to Proprietor's account.		

LEDGER

MERCHANDISE (new account)

Dec. 31	J.....	$25			

CASH

Dec. 31	J.....	$20	Dec. 31	J.....	$15

R. L. JACKSON

Dec. 31	J.....	$30			

MERCHANDISE (old account)

Dec. 31	J.....	$35	Dec. 31	J.....	$55
	J.....	20			

RENT EXPENSE

Dec. 31	J.....	$15	Dec. 31	J.....	$15

JONES & CO.

			Dec. 31	J.....	$33

T. HART, PROPRIETOR

			Dec. 31	J.....	$20
				J P. & L.....	5

PROFIT AND LOSS

Dec. 31	J Rent.....	$15	Dec. 31	J Mdse.....	$20
	J Prop.....	5			

PROFIT AND LOSS STATEMENT

Income

Merchandise Profit.....	$20	
Total Income.....		$20

Expenses

Rent Expense.....		15
Net Profit.....		$ 5

BALANCE SHEET—December 31

Assets

Cash.....	$ 5	
R. L. Jackson.....	30	
Merchandise.....	25	$60

Liabilities

Jones & Co.....	$35	
T. Hart, Proprietor.....	25	$60

Answer—Problem 10

JOURNAL

Mar. 1		
Cash	$100.00	
Harry Smith, Proprietor		$100.00
Investment in grocery business.		
Store Building	50.00	
Cash		50.00
Purchase building for cash.		
Mar. 2		
Merchandise	20.00	
Cash		20.00
Purchase 20 sacks flour at $1 a sack.		
Merchandise	70.00	
Ross & Co		70.00
30 days' time, purchase assorted merchandise.		
Mar. 3		
Cash	12.50	
Merchandise		12.50
Sale 10 sacks flour at $1.25 a sack.		
R. E. Colt	40.00	
Merchandise		40.00
Sale 30 days' terms.		
Mar. 4		
Cash	6.25	
Merchandise		6.25
Sale 5 sacks at $1.25.		

Salary Expense	$25.00	
Cash		$25.00
Salaries paid.		
Mar. 5		
Light Expense	2.00	
Cash		2.00
Pay electric bill.		
Mar. 6		
Cash	5.00	
Rent Income		5.00
Collect rent for part of store.		
Mar. 31		
Merchandise (new account)	60.00	
Merchandise (old account)		60.00
Inventory.		
Merchandise (old account)	28.75	
Profit and Loss		28.75
Closing into P. & L.		
Profit and Loss	25.00	
Salary Expense		25.00
Closing into P. & L.		
Profit and Loss	2.00	
Light Expense		2.00
Closing into P. & L.		
Rent Income	5.00	
Profit and Loss		5.00
Closing into P. & L.		
Profit and Loss	6.75	
Harry Smith, Proprietor		6.75
Close net profit into Proprietor's account.		

LEDGER

CASH

Mar.	1	J.....	$100.00	Mar.	1	J.....	$50.00
	3	J.....	12.50		2	J.....	20.00
	4	J.....	6.25		4	J.....	25.00
	6	J.....	5.00		5	J.....	2.00

HARRY SMITH, PROPRIETOR

				Mar.	1	J.....	$100.00
					31	J P. & L.	6.75

STORE BUILDING

Mar.	1	J.....	$50.00				

MERCHANDISE

Mar.	2	J.....	$20.00	Mar.	3	J.....	$12.50
		J.....	70.00			J.....	40.00
	31	J P. & L.	28.75		4	J.....	6.25
					31	J.....	60.00

ROSS & CO.

				Mar.	2	J.....	$70.00

R. E. COLT

Mar.	3	J.....	$40.00				

SALARY EXPENSE

Mar. 4	J.....	$25.00	Mar. 31	J P. & L.	$25.00

LIGHT EXPENSE

Mar. 5	J.....	$2.00	Mar. 31	J P. & L.	$2.00

RENT INCOME

Mar. 31	J P. & L.	$5.00	Mar. 6	J.....	$5.00

MERCHANDISE (new account)

Mar. 31	J.....	$60.00

PROFIT AND LOSS

Mar. 31	J Salaries	$25.00	Mar. 31	J Mdse..	$28.75
	J Lights	2.00		J Rent Income	5.00
	J Prop. Acct...	6.75			

The trial balance before closing the various force accounts into the Profit and Loss account will appear as follows:

March 31

	Dr.	Cr.
Cash.....	$123.75	$ 97.00
Harry Smith, Proprietor...		100.00
Store Building.....	50.00	

Merchandise (old account)	90.00	118.75
Ross & Co.		70.00
R. E. Colt	40.00	
Salary Expense	25.00	
Light Expense	2.00	
Rent Income		5.00
Merchandise (new account)	60.00	
	$390.75	$390.75

The trial balance after closing the force accounts is given below. You will see that in this trial balance we show only the difference between the debits and credits.

	Dr.	Cr.
Cash	$ 26.75	
Harry Smith, Proprietor		$106.75
Store Building	50.00	
Ross & Co.		70.00
R. E. Colt	40.00	
Merchandise	60.00	
	$176.75	$176.75

BALANCE SHEET—March 31, 1920

Assets

Cash	$ 26.75	
Merchandise	60.00	
R. E. Colt	40.00	
Store Building	50.00	$176.75

Liabilities

Ross & Co.	$ 70.00	
Harry Smith, Proprietor	106.75	$176.75

PROFIT AND LOSS STATEMENT

Income		
Merchandise Profit	$28.75	
Rent Income	5.00	
Total Income		$33.75
Expenses		
Salaries	$25.00	
Lights	2.00	
Total Expenses		$27.00
Net Profit		$ 6.75

Answer—Problem 11

JOURNAL

Jan. 5		
Cash	$40.00	
Notes Payable		$40.00
Borrowed on 90-day 6% note.		
Notes Receivable	30.00	
Merchandise		30.00
60-day 6% note in payment of merchandise.		
Mar. 4		
Cash	30.30	
Notes Receivable		30.00
Interest Income		.30
Customer pays note dated Jan. 5.		

LEDGER

CASH

Jan. 5	J.....	$40.00			
Mar. 4	J.....	30.30			

NOTES PAYABLE

			Jan. 5	J.....	$40.00

NOTES RECEIVABLE

Jan. 5	J.....	$30.00	Mar. 4	J.....	$30.00

MERCHANDISE

			Jan. 5	J.....	$30.00

INTEREST INCOME

			Mar. 4	J.....	$.30

Answer—Problem 12

JOURNAL

Merchandise.....	$50.00	
J. Jones.....		$50.00
Merchandise purchased on 30 days' 2% terms.		

J. Jones	$50.00	
Cash		$49.00
Discount Income		1.00
Paid Jones less 2% discount.		
John Hall	20.00	
Merchandise		20.00
Sold on terms.		
Cash	19.60	
Discount Expense	.40	
John Hall		20.00

LEDGER

MERCHANDISE

J.	$50.00	J.	$20.00

J. JONES

J.	$50.00	J.	$50.00

CASH

J.	$19.60	J.	$49.00

DISCOUNT INCOME

		J.	$1.00

JOHN HALL

J.	$20.00	J.	$20.00

DISCOUNT EXPENSE

J.....	$.40		

Answer—Problem 13

CASH BOOK

Dr.					Cr.
Jan. 8	Mdse.....	$100	Jan. 8	Insurance Exp.	$25
	Rent Inc.....	30		Mdse.....	30
	Mrs. Jackson.	15			

LEDGER

CASH ACCOUNT

Jan. 8	CB.....	$145	Jan. 8	CB.....	$55

MERCHANDISE ACCOUNT

Jan. 8	CB.....	$30	Jan. 8	CB.....	$100

RENT INCOME

			Jan. 8	CB.....	$30

MRS. JACKSON

			Jan. 8	CB.....	$15

INSURANCE EXPENSE

Jan.	8	CB.....	$25				

Answer—Problem 14

CASH BOOK

Jul.	3	Int. Inc.....	$6	Jul.	1	Rent Exp.....	$20
					3	Salary Exp....	12
					7	Trucking Exp..	7

JOURNAL

Dec. 31		
Profit and Loss.....	$20	
Rent Expense.....		$20
Closing into P. & L.		
Profit and Loss.....	12	
Salary Expense.....		12
Closing into P. & L.		
Interest Income.....	6	
Profit and Loss.....		6
Closing into P. & L.		
Profit and Loss.....	7	
Trucking Expense.....		7
Closing into P. & L.		

LEDGER

RENT EXPENSE

Jul.	1	CB.....	$20	Dec. 31	J.....	$20

SALARY EXPENSE

Jul.	3	CB.....	$12	Dec. 31	J.....	$12

INTEREST INCOME

Dec.	31	J.....	$6	Jul.	3	CB.....	$6

TRUCKING EXPENSE

Jul.	7	CB.....	$7	Dec.	31	J.....	$7

CASH

Jul.	3	CB.....	$6	Jul.	1	CB.....	$20
					3	CB.....	12
					7	CB.....	7

PROFIT AND LOSS

Dec.	31	J Rent Exp...	$20	Dec.	31	J Int. Inc..	$6
		J Sal. Exp...	12				
		J Trucking Exp.....	7				

PROFIT AND LOSS STATEMENT

Income

Interest	$ 6	
Total Income		$ 6

Expenses

Rent	$20	
Salaries	12	
Trucking	7	
Total Expenses		39
Net Loss		$33

Answer—Problem 15

JOURNAL

Dec. 31		
Rent Income	$100	
Profit and Loss		$100
Closing into P. & L.		
Merchandise (old account)	300	
Profit and Loss		300
Closing into P. & L.		
Profit and Loss	50	
Insurance Expense		50
Closing into P. & L.		
Profit and Loss	200	
Salary Expense		200
Closing into P. & L.		

Profit and Loss	$150	
A's Proprietor Account		$100
B's Proprietor Account		50
To distribute profit to partners.		

LEDGER

PROFIT AND LOSS

Dec. 31	J Ins.	$ 50	Dec. 31	J Rent	$100
	J Sal.	200		J Mdse.	300
	J A's Prop. acct.	100			
	J B's Prop. acct.	50			

A'S PROPRIETOR ACCOUNT

Dec. 31	J	$100

B'S PROPRIETOR ACCOUNT

Dec. 31	J	$50

Answer—Problem 16

JOURNAL

Dec. 31		
Merchandise (old account)	$100	
Profit and Loss		$100
Closing into P. & L.		

Rent Income	$40	
Profit and Loss		$40
Closing into P. & L.		
Profit and Loss	50	
Insurance Expense		50
Closing into P. & L.		
Profit and Loss	80	
Salary Expense		80
Closing into P. & L.		
Profit and Loss	10	
Surplus		10
Closing net profit into Surplus account.		

LEDGER

PROFIT AND LOSS

Dec. 31	J Ins.	$50	Dec. 31	J Mdse.	$100
	J Sal.	80		J Rent.	40
	J Surplus.	10			

SURPLUS ACCOUNT

	Jan. 1	Bal.	$30
	Dec. 31	J.	10

BALANCE SHEET

Assets

Merchandise	$300	
Accounts Receivable	200	
		$500

Liabilities

Accounts Payable	$ 60	
Capital Stock	400	
Surplus	40	
		$500

(Note that we have increased the Surplus account to $40 by crediting it with the net profits for the period.)

Answer—Problem 17

JOURNAL

Dec. 31		
Depreciation Expense	$ 40	
Building		$ 40
Depreciation 1 year at 4%.		
Depreciation Expense	50	
Fixtures		50
Depreciation 1 year at 10%.		
Depreciation Expense	160	
Auto		160
Depreciation 1 year at 20%.		
Profit and Loss	250	
Depreciation Expense		250
Closing into P. & L.		

LEDGER

BUILDING

Jan. 1 J.....	$1,000	Dec. 1 J.....	$40

FIXTURES

Jan. 1	J.....	$500	Dec. 1	J.....	$50

AUTO

Jan. 1	J.....	$800	Dec. 1	J.....	$160

DEPRECIATION EXPENSE

Dec. 31	J.....	$40	Dec. 31	.....	$250
	J.....	50			
	J.....	160			

PROFIT AND LOSS

Dec. 31	Depr.....	$250			

Answer—Problem 18

JOURNAL

Dec. 31		
Interest Expense.....	$30	
Accrued Interest Payable.....		$30
Accrued interest $1,000, 6 months at 6%.		
Insurance Expense.....	10	
Prepaid Insurance.....		10
Insurance used November and December 2 months at $5 a month.		

LEDGER

PREPAID INSURANCE

Nov.	1	CB.....	$60	Dec. 31	J.....	$10

ACCRUED INTEREST PAYABLE

				Dec. 31	J.....	$30

INTEREST EXPENSE

Dec.	31	J.....	$30			

INSURANCE EXPENSE

Dec.	31	J.....	$10			

Answer—Problem 19

Dr. CASH BOOK Cr.

Dec.	1	H. White, Prop....	$1,500	Dec.	1	Prepaid Ins.	$120
	31	Mdse.....	800		2	Mdse.....	300
					11	Smith & Co.	882
					31	Wage Exp..	200
						Rent Exp...	55

JOURNAL

Dec. 2		
Merchandise	$900	
Smith & Co.		$900
Merchandise purchased on 10 days' 2% terms.		
Dec. 3		
Mrs. Brown	50	
Merchandise		50
Merchandise sold on 30 days' terms.		
Dec. 11		
Smith & Co.	18	
Purchase Discount		18
2% discount on $900 bill.		
Dec. 31		
Merchandise (new account)	700	
Merchandise (old account)		700
Inventory.		
Insurance Expense	10	
Prepaid Insurance		10
One month's insurance used.		

LEDGER

HARRY WHITE, PROPRIETOR

Dec. 1 CB.....	$1,500

PREPAID INSURANCE

Dec. 1	CB.....	$120	Dec. 31	J.....	$10
Jan. 1	Balance...	$110			

MERCHANDISE

Dec. 2	CB.....	$300	Dec. 3	J.....	$ 50
	J.....	900	31	CB.....	800
				J.....	700

SMITH & CO.

Dec. 11	CB.....	$882	Dec. 2	J.....	$900
	J.....	18			

MRS. BROWN

Dec. 3	J.....	$50			

PURCHASE DISCOUNT

			Dec. 11	J.....	$18

MERCHANDISE (new account)

Dec. 31	J.....	$700			

CASH

Dec. 31	CB.....	$2,300		Dec. 31	CB.....	$1,557
Jan. 1	Balance...	$743				

INSURANCE EXPENSE

Dec. 31	J.....	$10	

WAGE EXPENSE

Dec. 31	CB.....	$200	

RENT EXPENSE

Dec. 31	CB.....	$55	

TRIAL BALANCE—December 31
(Before Closing)

	Dr.	Cr.
Harry White, Proprietor.....		$1,500
Prepaid Insurance.....	$ 110	
Merchandise (old account)....		350
Mrs. Brown.....	50	
Purchase Discount.....		18
Merchandise (new account)....	700	
Cash.....	743	
Insurance Expense.....	10	
Wage Expense.....	200	
Rent Expense.....	55	
	$1,868	$1,868

Answer—Problem 20

JOURNAL

Dec. 31		
Merchandise (old account)	$350	
Profit and Loss		$350
Closing profit on merchandise into P. & L.		
Purchase Discount	18	
Profit and Loss		18
Closing into P. & L.		
Profit and Loss	10	
Insurance Expense		10
Closing into P. & L.		
Profit and Loss	200	
Wage Expense		200
Closing into P. & L.		
Profit and Loss	55	
Rent Expense		55
Closing into P. & L.		
Profit and Loss	103	
Harry White, Proprietor		103
Crediting net profit to Proprietor.		

LEDGER

HARRY WHITE, PROPRIETOR

	Dec. 1	CB	$1,500
	31	J	103

MERCHANDISE

Dec.	2	CB.....	$ 300	Dec.	3	J.....	$ 50
		J.....	900		31	CB.....	800
	31	J.....	350			J.....	700
			$1,550				$1,550

PURCHASE DISCOUNT

Dec.	31	J.....	$18	Dec.	11	J.....	$18

INSURANCE EXPENSE

Dec.	31	J.....	$10	Dec.	31	J.....	$10

WAGE EXPENSE

Dec.	31	CB.....	$200	Dec.	31	J.....	$200

RENT EXPENSE

Dec.	31	CB.....	$55	Dec.	31	J.....	$55

PROFIT AND LOSS

Dec.	31	J Ins. Exp..	$ 10	Dec.	31	J Mdse...	$350
		J Wage Exp.	200			J Purchase Dis.....	18
		J Rent Exp..	55				
		J. H. White, Prop.	103				
			$368				$368

TRIAL BALANCE—December 31
(After Closing)

	Dr.	Cr.
Harry White, Proprietor		$1,603
Prepaid Insurance	$ 110	
Mrs. Brown	50	
Merchandise	700	
Cash Account	743	
	$1,603	$1,603

BALANCE SHEET—December 31

Assets

Cash	$ 743	
Mrs. Brown	50	
Merchandise	700	
Prepaid Insurance	110	
Total Assets		$1,603

Liabilities

Harry White, Proprietor	$1,603	
Total Liabilities		$1,603

PROFIT AND LOSS STATEMENT

December 1 to December 31

Income

Merchandise Profit	$350	
Purchase Discount	18	
Total Income		$368

Expense

Insurance Expense	$ 10	
Wage Expense	200	
Rent Expense	55	
Total Expense		265
Net Profit		$103

APPENDIX D

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